

Allband Communications, Inc.
Procedures for Assignment of Costs to Affiliate Accounts and Non-regulated Operations

Introduction

Allband Communications Cooperative (Cooperative) is a non-profit corporation that provides regulated telephone service. Allband Multimedia, LLC (Multimedia) is a wholly owned subsidiary of Allband Communications Cooperative and provides non-regulated services. Non-regulated services provided by Multimedia are identified below. Each company maintains separate accounting records. All personnel that perform work functions for both companies are employees of the Cooperative. Pursuant to an affiliate agreement, the Cooperative provides services, consisting primarily of labor, to Multimedia. Multimedia separately accounts for all expenses and revenues associated with their operations. Services provided by the Cooperative to Multimedia are directly identified or identified based on cost allocation procedures. This document describes the accounting and cost procedures used by the Cooperative to account for investments, reserves, expenses and taxes associated with the respective affiliates and with non-regulated services, including those provided by Multimedia.

Non-regulated Services Provided by the Cooperative and Multimedia

1. Non-regulated services provided and accounted for by the Cooperative:
 - a. Inside Wire – installation, maintenance and repair of customer premise inside wire.
2. Non-regulated services provided and accounted for by Multimedia:
 - a. High Speed Internet Services – FTTH Internet services are provided in the Cooperative's telephone service area and outside of its Rate Center in various locations outside the Cooperative's exchange.
 - b. Telephone systems (Key, PBX, etc.) sales, installation and maintenance.
 - c. VoIP Telephone – Allband Multimedia provides VoIP telephone services by utilizing numbering from a carrier partner who has a CLEC license and numbering from NANPA in rate centers where Allband Multimedia provides service. Allband Multimedia pays the provider a flat numbering fee, MOU fees and SIP trunking fees.
 - d. Voice Mail Service and Calling Features
 - e. Computer sales and repair services
 - f. Home Automation/Security Services
 - g. Small Business and Residential IT Network Design and Consulting

3. Affiliate Services - pursuant to an Affiliate Agreement, Allband Communications Cooperative provides the following services to Allband Multimedia:
 - a. Installation and maintenance of high-speed Internet Service
 - b. Wholesale bandwidth for Internet access
 - c. Customer service and billing and collection
 - d. Management and administration

Overview of Cost Assignment Procedures

There are three general phases to the cost assignment process. These consist of:

1. Direct Charges – costs that can be directly assigned to the respective affiliate. These costs are generally vendor specific costs that can be assigned based on invoices. Such charges are assigned to the appropriate affiliate in the accounting process.
2. Assignment Based on Direct Analysis – these costs are assigned as part of the accounting process to the respective affiliate, typically based on payroll hours or the number of lines in service.
3. Other Non-Regulated Adjustments – For costs not identified in the accounting process that are joint in nature, the costs are assigned to non-regulated operations as part of the annual jurisdictional cost study process.

Allband has established accounts that segregate assets, liabilities and expenses related to the Cooperative and Multimedia entities. It should be noted that other than current assets such as receivables and cash, Multimedia does not own any facility and other investments. The Cooperative's assets that are jointly used by both entities are assigned to Multimedia as part of the annual cost study process. These procedures are described in further detail below. Based on the accounting records and adjustments that are part of the jurisdictional cost study process regulated amounts are determined and serve as the bases for cost studies used by NECA and USAC to determine the Cooperative's High Cost Loop Support (HCLS) and Interstate Common Line Support (ICLS).

Description of Time Reporting and Allocation Procedures Used by the Cooperative to Directly Account for Labor-Related Non-Regulated Costs.

The Cooperative has implemented and maintains a time-reporting system to capture labor-related costs associated with providing non-regulated services. The time reporting and accounting processes implemented by capture the payroll and other costs that are assigned to the respective affiliates and non-regulated services. The following labor related costs are captured or assigned based on the time reporting process:

- Gross payroll costs

- Benefit Costs (Social Security, health insurance, pension, and Other benefits)
- Motor vehicle expenses
- Other work equipment expenses

The Cooperative's employees, including administrative and management personnel, prepare time sheets that account for the amount of time the employee has spent on the respective affiliates and non-regulated services. Plant or Field Technicians prepare time sheets on a daily basis. The time sheets indicate appropriate accounts that identify regulated and non-regulated functions attributable to work functions performed by the Cooperative's employees. For each employee, the gross salary and wages are assigned to the respective affiliates and non-regulated services based on the amount of work hours. Non-productive time (vacation, sick time, etc.) is separately assigned to the accounts based on hours worked or payroll hours. In addition to gross payroll costs, payroll taxes (FICA and unemployment), benefits and overheads (motor vehicle expenses and other work equipment) are assigned to the accounts. These distributions are also based on payroll hours.

Procedures for Assignment of Joint-Use Investments to Non-Regulated Operations

Plant Labor and Work Equipment Expense - Capitalized

The Cooperative, due to requirements associated with an American Recovery & Reinvestment Act (ARRA) grant, owns the facilities utilized exclusively by Multimedia to provide services. This grant fully funded the placement of transmission facilities employed by Multimedia to provide broadband services. While the plant assets are recorded on the cooperative's books, the net plant is reflected as zero since the equipment and labor for placement were fully funded by the ARRA grant. Essentially, the total plant is recorded in asset accounts along with a contra-account or reserve which results in a net plant balance of zero. Since the Cooperative's cost basis is zero in the grant funded facilities, there is no associated capital costs such as cost of money and depreciation expense. Table 1 displays the accounts used to account for facilities funded with the grant.

Table 1 – Asset Accounts Associated with ARRA Grants

Account	Description
212301	Office Equipment ARRA
212302	Office Equipment ARRA - Contra
212401	General Purpose Computers ARRA
212402	General Purpose Computers ARRA - Contra
223301	Circuit Equipment ARRA
223302	Circuit Equipment ARRA - Contra
242201	Fiber Optic Cable ARRA
242202	Fiber Optic Cable ARRA - Contra

The Cooperative's employees perform work functions to install facilities and services that are ultimately funded from the grant. A portion of payroll for the Cooperative's plant operations and work equipment

expense is attributable and funded by the grant. The services provided over these facilities are delivered by Multimedia.

General Support Facilities

General support facility investments that are jointly used to provide both regulated and non-regulated services, including related reserves, attributable to non-regulated Services, are allocated in the annual cost study process as indicated in Table 2:

Table 2 – Investment/Reserve Non-regulated Allocation Methods

Account	Description	Allocation Method
2111	Land	Special Study
2112	Motor Vehicles	Time Study
2114	Other Work Equipment	Time Study
2121	Buildings	Special Study
2123	Office Equipment	Time Study
2124	General Purpose Computers	Time Study

All other general support investments are allocated based on time studies. Motor vehicle investments are assigned based on time studies for management and outside field employees. Tools and other work equipment investments are assigned based on time reporting for outside field employees. Office equipment, and general-purpose computer investments are assigned based on time reporting for inside/office employees. As discussed in further detail below, other costs that are applicable to general support facilities investments (i.e., maintenance and depreciation are allocated to non-regulated services based on the assignment of the related investment accounts.

Procedures for Assignment of Expenses to Non-Regulated Operations

Plant Specific Operations

Direct Charged Expenses - Table 3 below summarizes the key types of expenses that were direct charged or assigned to the respective affiliates.

Table 3 – Examples of Plant Specific Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6121	Land and Building Expense	This account is charged with expenses associated with the central office building that serves the Robbs Creek exchange or the Cooperative's regulated service area.
6121.2	Building Rent	Rent expense associated with the general office building is recorded in this account (this is further assigned to the respective affiliates and non-regulated services as part of the annual cost study process and is discussed below).
6212	Digital Electronic Expense	Account contains the expenses associated with the switch employed for the Cooperative's regulated voice services
6232	Circuit Equipment Expense	Account contains the expenses associated with transmission of the Cooperative's regulated voice services.
6232.2	Access Charge	The Cooperative account for access charges is primarily associated with the costs of right of way access. The Multimedia account for access charges predominantly represent back-haul charges and ISP service charges. The expenses associated the VOIP underlying carrier for Multimedia's voice services are charged to this account.
6362.1	Network Monitoring	Contains the expenses associated for the monitoring of non-regulated Internet services transmitted on the Cooperative's network.
6362.11	Toll Resale	Contains the expenses associated with wholesale long distance charges on both the regulated and non-regulated voice services. Allband uses separate vendors for the Cooperative and Multimedia and accounts for charges in the respective accounts.

Expenses Assigned Based on Direct Analysis - Payroll expenses and related clearings, described above, are assigned based on payroll hours. Plant employees report time to account codes on time sheets. This enables assignment of the respective payroll costs to the appropriate affiliate and account.

Other Non-regulated Adjustments - As part of the annual cost study process, expenses associated with general support assets and building rents are assigned to non-regulated operations, including Multimedia. These adjustments are shown in the column labeled "Other NonReg Adj." Most of the plant specific expenses assigned by this process is associated with the general office building rent. Generally, these assignments are based on an analysis of payroll hours.

General support expenses attributable to Non-regulated Services are allocated in the annual cost study process as indicated in Table 4:

Table 4 – General Support Related Expense Allocations

Account	Description	Allocation Method
6561	Depreciation Expense - Buildings	Building Investment
6561	Depreciation Expense - Motor Vehicles	Motor Vehicle Investment
6561	Depreciation Expense – Tools and Other Work Equipment	Tools and Other Work Equipment Investment
6561	Depreciation Expense - Furniture	Furniture Investment
6561	Depreciation Expense – Office Equipment	Office Equipment Investment
6561	Depreciation Expense – General Purpose Computers	Computer Investment
6121	Land & Building Expense	Building Investment
6122	Furniture Expense	Furniture Investment
6123	Office Equipment Expense	Office Equipment Investment
6124	Computer Expense	Computer Investment
7240.3	Other Taxes – Property	Investment

Network Operations Expense

Direct Charged Expenses - Table 5 contains examples of major direct charged expenses for Network Operations Expense accounts.

Table 5 – Examples of Network Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6531	Power Expense	This account contains the power expense for the Cooperative's buildings and remotes. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below).
6532	Network Administration	This account primarily includes charges for National Emergency System and support contract for the Cooperative's network equipment. It also includes vendor specific charges associated with network administration for the Cooperative.
6534	Plant Operations	This account includes costs of supplies that support the Cooperative's plant operations.
6535	Engineering Expense	Expenses associated with Engineering expenses incurred by the Cooperative from outside contractors are recorded in this account.
6540	Access Expense	The Cooperative account represents required contributions to the universal service fund. The Multimedia account represents the amount of NECA access charges assessed by the Cooperative to Multimedia for DSL services

Expenses Assigned Based on Direct Analysis - The major portion of plant operations is payroll related. Employees track time and prepare time sheets which enables the assignment of payroll related costs to the appropriate accounts. For account 6534, Plant Operations expense, the costs are assigned to the Cooperative and Multimedia accounts based on the respective lines in service.

Other Non-regulated Adjustments - A portion of Account 6531, Power Expenses is assigned to non-regulated operations based on an analysis of the vendor billing amounts attributable to regulated and non-regulated operations.

Plant Nonspecific Operations Expenses

Motor Vehicles expenses are initially direct charged to the Cooperative; however, these expense are ultimately cleared to other accounts based on payroll hours. Motor Vehicles expenses are cleared to the following major accounts: Plant Specific Operations, Network Operations, Customer Operations and Corporate Operations.

The majority of the account balance represents amortization expenses attributable to loan origination fees of the Cooperative. This expense is fully attributable to the Cooperative.

Depreciation Expenses

Direct Charged Expenses - All of the depreciation expense is associated with assets owned by the Cooperative. This is for depreciation of investment in facilities employed to serve cooperative customers and is predominantly used to provide regulated telecommunications services. As mentioned previously Multimedia does not own any facility-related assets. While the Cooperative owns the assets used by Multimedia to serve its customers, there is no cost basis in these assets, since they were 100 percent funded with grants. As explained above, in the accounting records, the assets' original costs are netted against a contra-account which results in zero investments on the books. Consequently, there is no depreciation expense associated with the assets.

Other Non-regulated Adjustments - An adjustment is made in the annual cost study which assigns a portion of the annual depreciation expense associated with general support assets of the Cooperative to Multimedia and non-regulated operations. See Table 4.

Customer Operations Expenses

Direct Charged Expenses - Table 6 below provides examples of the major types of expenses directly accounted for as Customer Operations Expenses.

Table 6 – Examples of Customer Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6613	Advertising	Contains vendor specific advertising and marketing costs.
6622	Number Services	Contains vendor specific costs associated with number services expense. Allband uses separate vendors for each of the entities.
6623	Customer Services	Contains vendor specific costs for customer service support.

Expenses Assigned Based on Direct Analysis - A major portion of customer service expenses are payroll related and assigned to the accounts based on the relative payroll hours.

Corporate Operations Expenses

Direct Charged Expenses - Table 5 below provides examples of the major types of corporate operations expenses directly chargeable to the affiliates.

Table 5 – Examples of Corporate Operations Expenses Direct Charged

Account	Description	Example/Explanation of Key Expenses
6711	Executive	Executive expense is all payroll related and in 2014 there were no direct charges.
6720	General and Administrative	This account primarily contains association membership dues, software subscriptions and travel expenses. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below)
6721	Accounting/Finance	Contains the costs of the annual financial audit required by RUS. This expense is all attributable to the Cooperative.
6722	Cost Study Expense	This account contains expenses associated with preparation of the annual cost study and other regulatory compliance services provided by consultants. All of this expense is assignable to Cooperative's regulated services.
6725	Legal	This account is used to record legal costs of outside counsel for representation before the courts and regulators. All legal representation is typically attributable to the Cooperative.
6728	Insurance	Contains direct insurance costs related to the Cooperative's assets and employees. (A portion of these expenses are assigned as part of the annual cost study process and is discussed below)

Expenses Assigned Based on Direct Analysis - Payroll related costs and clearings are assigned to the affiliates and non-regulated services based on payroll hours. The Company's managers track and report their time that is attributable to each affiliate by account. All management employees direct report their work hours on time sheets.

Other Non-regulated Adjustments – A portion of the direct general and administrative expenses contained in Account 6720 are assigned to non-regulated operations based on payroll hours. Additionally, a portion of Account 6728, Insurance Expense is assigned to non-regulated operation based on payroll hours.

Other Operating Taxes

Other Non-regulated Adjustments – These taxes represent property taxes assessed to the Cooperative. A portion is assigned to Multimedia and non-regulated operations based on an analysis of property tax assessments.